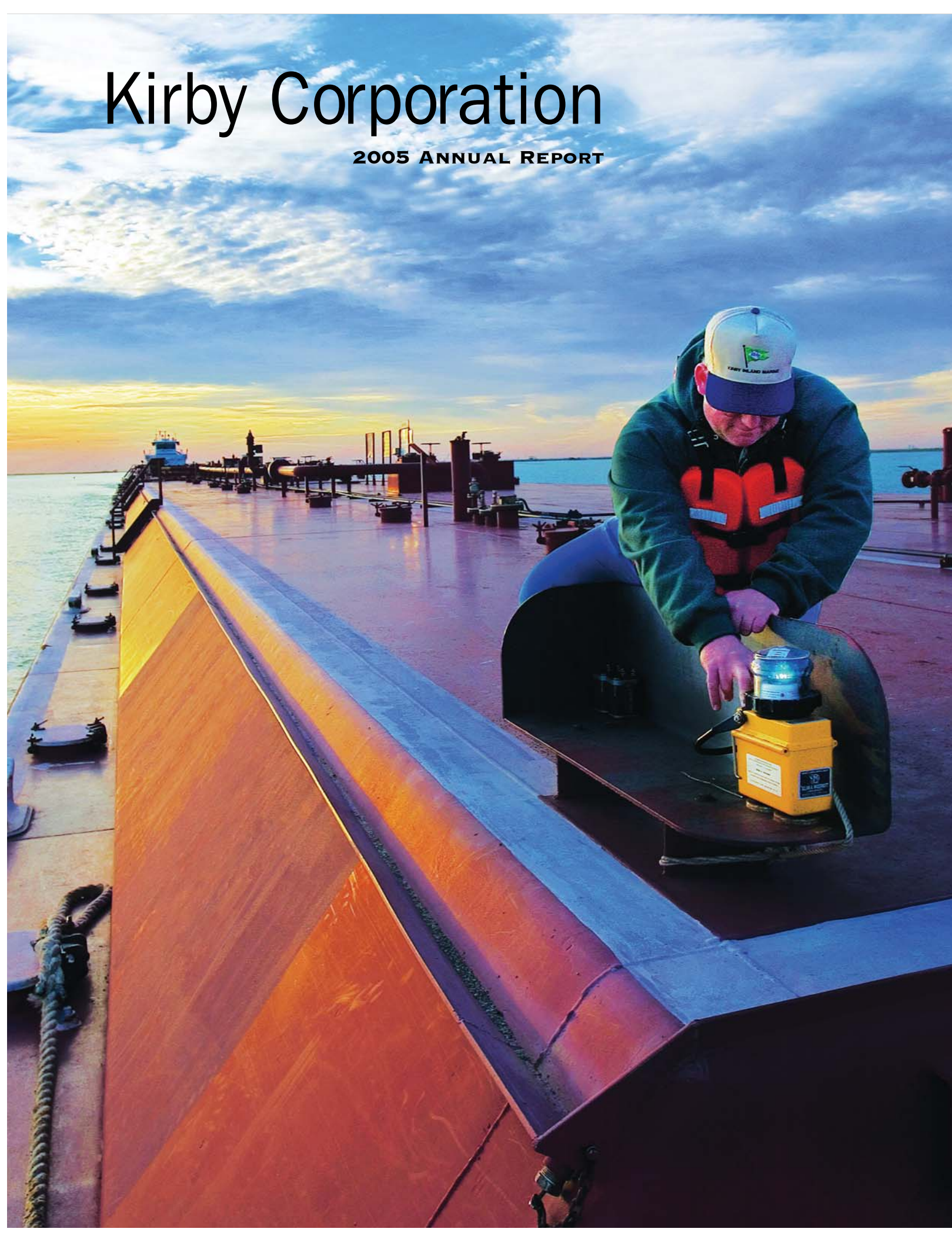


# Kirby Corporation

2005 ANNUAL REPORT



## 2005 QUARTERLY REVIEW

(In thousands, except per share amounts) (Unaudited)

### FIRST QUARTER

	2005	2004	Change
Revenues	\$184,444	\$157,315	17%
Net earnings	\$ 13,279	\$ 9,020	47%
Earnings per share	\$ .52	\$ .36	44%
EBITDA	\$ 39,545	\$ 31,720	25%

- Petrochemical and black oil products demand remained strong
- Contract and spot market pricing improved
- Record navigational delays in January and February negatively impacted results, creating some pent-up demand in March
- Diesel engine services benefited from strong sales and price increases in majority of its markets

### SECOND QUARTER

	2005	2004	Change
Revenues	\$199,276	\$170,876	17%
Net earnings	\$ 18,447	\$ 13,778	34%
Earnings per share	\$ .72	\$ .55	31%
EBITDA	\$ 46,830	\$ 39,103	20%

- Petrochemical and black oil products demand remained strong
- Contract and spot market pricing improved
- Favorable weather conditions benefited results
- Diesel engine services benefited from strong sales and price increases in majority of its markets

### THIRD QUARTER

	2005	2004	Change
Revenues	\$198,741	\$173,389	15%
Net earnings	\$ 17,285	\$ 13,250	30%
Earnings per share	\$ .67	\$ .53	26%
EBITDA	\$ 44,601	\$ 38,730	15%

- Petrochemical and black oil products demand remained strong
- Contract and spot market pricing improved
- Hurricanes Katrina and Rita negatively impacted results by an estimated \$.10 per share
- Diesel engine services benefited from strong sales and price increases in majority of its markets

### FOURTH QUARTER

	2005	2004	Change
Revenues	\$213,261	\$173,739	23%
Net earnings	\$ 19,770	\$ 13,496	46%
Earnings per share	\$ .76	\$ .53	43%
EBITDA	\$ 50,334	\$ 38,739	30%

- Petrochemical and black oil products demand remained strong
- Agricultural chemical market improved
- Contract and spot market pricing improved
- Favorable weather conditions benefited results
- Diesel engine services benefited from strong sales and price increases in majority of its markets

Statements made in this Annual Report with respect to the future are forward-looking statements. These statements reflect Management's reasonable judgment with respect to future events. Forward-looking statements involve risks and uncertainties. Forward-looking statements are based on currently available information and Kirby assumes no obligation to update any such statements. Actual results could differ materially from those anticipated as a result of various factors. A list of these factors can be found in Kirby's Annual Report on Form 10-K for the year ended December 31, 2005, included in this Annual Report and filed with the Securities and Exchange Commission.

**Cover:** Crew member on the *M/V Lime Rock*, a Kirby Inland Marine 1800 horsepower towboat, adjusts the light on the lead barge of a loaded three-barge tow crossing Galveston Bay.

## FINANCIAL HIGHLIGHTS:

(In thousands, except per share amounts)	2005	For the years ended December 31,			
		2004	2003	2002	2001
Revenues:					
Marine transportation	\$ 685,999	\$ 588,828	\$ 530,411	\$ 450,280	\$ 481,283
Diesel engine services	109,723	86,491	83,063	85,123	85,601
	<u>\$ 795,722</u>	<u>\$ 675,319</u>	<u>\$ 613,474</u>	<u>\$ 535,403</u>	<u>\$ 566,884</u>
Net earnings	<u>\$ 68,781</u>	<u>\$ 49,544</u>	<u>\$ 40,918</u>	<u>\$ 27,446</u>	<u>\$ 39,603</u>
Net earnings per share (diluted)	<u>\$ 2.67</u>	<u>\$ 1.97</u>	<u>\$ 1.67</u>	<u>\$ 1.13</u>	<u>\$ 1.63</u>
Weighted average shares outstanding (diluted)	<u>25,781</u>	<u>25,157</u>	<u>24,506</u>	<u>24,394</u>	<u>24,270</u>
Earnings before interest, taxes, depreciation and amortization (EBITDA):*					
Net earnings	\$ 68,781	\$ 49,544	\$ 40,918	\$ 27,446	\$ 39,603
Interest expense	12,783	13,263	14,628	13,540	19,038
Provision for taxes on income	42,341	30,365	25,079	18,047	27,523
Depreciation and amortization	57,405	55,120	53,328	45,507	50,244
EBITDA	<u>\$ 181,310</u>	<u>\$ 148,292</u>	<u>\$ 133,953</u>	<u>\$ 104,540</u>	<u>\$ 136,408</u>
Property and equipment, net	\$ 642,381	\$ 574,211	\$ 536,512	\$ 486,852	\$ 466,239
Total assets	\$ 1,025,548	\$ 904,675	\$ 854,961	\$ 791,758	\$ 752,435
Long-term debt, including current portion	\$ 200,036	\$ 218,740	\$ 255,265	\$ 266,001	\$ 249,737
Stockholders' equity	\$ 537,542	\$ 435,235	\$ 372,132	\$ 323,311	\$ 301,022
<b>Net earnings and earnings per share after adjustments**</b>					
(In thousands, except per share amounts)	2005	2004	2003	2002	2001
Net earnings	\$ 68,781	\$ 49,544	\$ 40,918	\$ 27,446	\$ 39,603
Adjustments, net of taxes:					
Impairment of assets	—	—	—	12,498	—
Amortization of goodwill expense	—	—	—	—	6,253
Net earnings after adjustments	<u>\$ 68,781</u>	<u>\$ 49,544</u>	<u>\$ 40,918</u>	<u>\$ 39,944</u>	<u>\$ 45,856</u>
Net earnings per share (diluted)	<u>\$ 2.67</u>	<u>\$ 1.97</u>	<u>\$ 1.67</u>	<u>\$ 1.13</u>	<u>\$ 1.63</u>
Adjustments, net of taxes	<u>—</u>	<u>—</u>	<u>—</u>	<u>.51</u>	<u>.26</u>
Net earnings per share after adjustments (diluted)	<u>\$ 2.67</u>	<u>\$ 1.97</u>	<u>\$ 1.67</u>	<u>\$ 1.64</u>	<u>\$ 1.89</u>

\* EBITDA, defined as net earnings before interest expense, taxes on income, depreciation and amortization, is a non-GAAP financial measure used by Kirby because of its wide acceptance as a measure of operating profitability before nonoperating expenses (interest and taxes) and noncash charges (depreciation and amortization).

\*\* Net earnings and earnings per share after adjustments are non-GAAP financial measures used by Kirby that exclude non-recurring adjustments in order to present a measure of net earnings that facilitates a comparison of results from one period to results from another period on a more consistent basis, since the non-recurring items are materially different in nature and amount from one period to another. The adjustments generally represent items that are outside normal business operations and are therefore difficult to predict for future periods.



## TO OUR SHAREHOLDERS

Kirby Corporation posted record-setting results in 2005 in all financial areas: revenues – \$795.7 million; net earnings – \$68.8 million; and earnings per share – \$2.67. These 2005 record results follow 2004's record financial year and reflect increases over 2004 of 18% in revenues, 39% in net earnings and 36% in earnings per share. Kirby's 2005 EBITDA of \$181.3 million exceeded 2004's \$148.3 million by more than 22%.

These record-setting financial results were reflected in the price of Kirby stock, trading at a low of \$37.19 and a high of \$55.54 during 2005, and closing the year at \$52.17 on December 30.

With the largest fleet of inland tank barges in the United States, Kirby was uniquely positioned to take advantage of market conditions during 2005. For the first time in many years, these market conditions reflected a balance of supply and demand between the capacity to transport liquid cargoes and the demand for tank barge capacity. Demand actually exceeded capacity during periods of the second half of 2005.

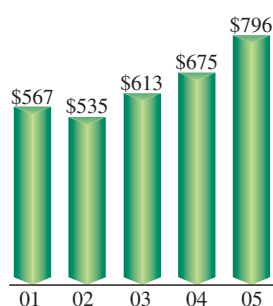
For 2005, the return on invested capital was 11.2%, a significant improvement over our 9.0% return in 2004 and our 8.1% return in 2003. Our objective continues to be a 12% return on invested capital.

Kirby's cash flow remained strong during 2005. Net cash provided by operations totaled \$142.0 million. Cash was used for the acquisition of American Commercial Lines' black oil fleet for \$7.0 million, capital expenditures of \$122.3 million, including \$62.6 million for new barge construction, and debt reduction of \$18.7 million. At December 31, 2005, our cash position totaled \$17.8 million. Debt as of December 31 was \$200.0 million compared with \$218.7 million at the end of 2004. Our debt-to-capitalization at December 31, 2005 was 27.1% compared with 33.4% a year earlier and 40.7% on December 31, 2003.

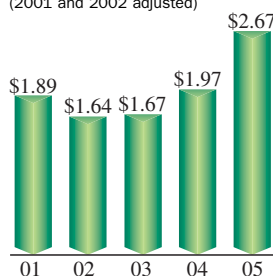
Kirby issued \$200 million of unsecured floating rate senior notes in May 2005. These notes require no principal payments until their maturity date in 2013 and feature an interest rate of LIBOR plus 0.5%. The proceeds were used to repay \$200 million of senior notes at an interest rate of LIBOR plus 1.2%. These new senior notes will save \$1.4 million in interest annually at the current \$200 million debt level. We currently have \$150 million of our debt hedged against fluctuations in short-term interest rates.

Kirby's marine transportation segment had a remarkable 2005, helping Kirby achieve our record results. The results reflected strong petrochemical and black oil products

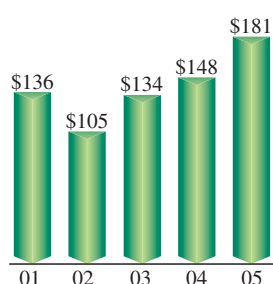
### REVENUES (In millions)



### EARNINGS PER SHARE (2001 and 2002 adjusted)



### EBITDA (In millions)



markets throughout the year and benefited from higher contract rates, averaging 4% to 6% higher than in 2004, and strong spot market pricing, 20% to 25% higher than in 2004. The marine transportation operating margin improved to 17.4% compared with 15.7% in 2004.

The marine transportation segment also continued with its record-setting safety performance in 2005. Safety is a people and equipment concern first and a financial concern second. Our excellent safety record during 2005 boosted both the morale and the health of our crews and our financial results. Reduction of accidents, spills and injuries during 2005 positively impacted our earnings and enabled us to meet customer requirements in this critical area.

Marine transportation results were negatively impacted by the two major Gulf Coast hurricanes of 2005. Hurricane Katrina, which made landfall on August 29th, and Hurricane Rita, which made landfall on September 24th, caused the shutdown of petrochemical and refining facilities located in the paths or projected paths of these storms. Waterways in the hurricane affected areas were closed and Kirby's equipment was moved out of the paths or projected paths of the storms. Fortunately, the hurricanes caused no injuries to our vessel crews and no notable damage to Kirby's tank barge and towboat fleet, or any of its facilities. These two major hurricanes negatively impacted the 2005 third quarter and year performance by an estimated \$.10 per share.

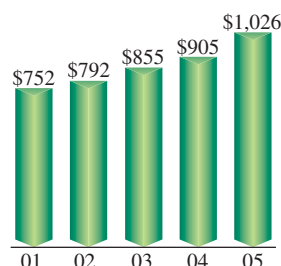
Kirby Engine Systems also posted record results for 2005 with its operating margin improving to 11.7% from 9.7% in 2004. With the stronger U.S economy during 2005, the segment's marine, power generation and railroad customer base was financially healthier, generating more service and parts activities from all markets. With the stronger markets, service rates and parts pricing improved, and a higher service revenue versus parts revenue mix was achieved, all positively impacting overall results and the operating margin. The record results also reflected the first full year of returns from the acquisition of Walker Boat Yard, a Midwest marine diesel engine services operation, purchased in April 2004.



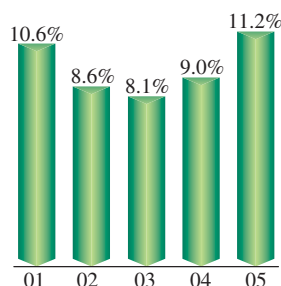
*Berdon Lawrence*

*Joe Pyne*

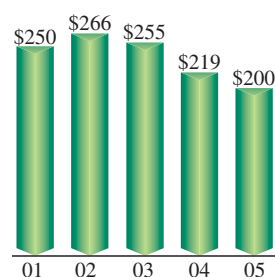
#### ASSETS (In millions)



#### RETURN ON INVESTED CAPITAL (2001 and 2002 adjusted)



#### LONG-TERM DEBT (In millions)



In addition to our ongoing fleet replacement and enhancement program, we added new capacity in 2005 to accommodate a tightened supply/demand relationship in the tank barge industry. For the first time in a number of years, we added 230,000 barrels to our overall capacity by building twenty 10,000 barrel petrochemical barges and one 30,000 barrel specialty chemical barge at a cost of \$26 million.

Fleet replacements, fleet additions and fleet enhancements will continue in 2006. Major projects include the construction of twenty-three 30,000 barrel tank barges, fifteen of which will be additions to fleet capacity and eight of which are replacement barges, at a cost of \$45 million. In addition, for the first time in a number of years, Kirby contracted to build four 2100 horsepower towboats at a cost of \$13 million. The four towboats will be used primarily on the Mississippi River. Two of the towboats will be placed in service in the second half of 2006 and two in early 2007. The balance of the projected capital expenditures will be used primarily for upgrading our existing tank barge and towboat fleet.

In an industry where approximately 800 barges of the industry's 2,800 tank barges are at least 30 years old and half of these more than 35 years old, Kirby's commitment is to ensure a safe and well-maintained tank barge fleet suited to carry our customers' cargoes. This issue is more fully explored on pages 8 and 9 of this Annual Report.

In January 2006, Kirby increased its ownership in Osprey Line, which operates a container on barge feeder service, to 67%. We purchased our initial 33% ownership of Osprey in April 2004. We expect this marine business segment to continue to grow as the U.S. surface-based transportation modes face increasing congestion issues. The water-based transportation system is less constrained than other surface transportation systems.

On March 1, 2006, we purchased from Progress Fuels Corporation their 65% interest in Dixie Fuels Limited, a general partnership, for \$15.6 million in cash, subject to working capital adjustments and drydocking expenditures. We have owned 35% interest in Dixie Fuels and served as its managing partner since the formation of the partnership in 1977. Dixie Fuels operates four offshore dry-bulk barge and tug units under long-term contracts.

Kirby is committed to building value over the long term. We continue to invest in our tank barge replacement program. We added new tank barge capacity in 2005 and will add new tank barge capacity and four new towboats in 2006 and early 2007. We continue to seek accretive acquisitions in both our marine transportation and our diesel engine services segments. We will also continue to develop our human resources and invest in employee training and safety.

Our goal is to continue to create value which is reflected in the price of Kirby stock over the long term. We will accomplish this by reinvesting in our equipment, by investing in our employees through ongoing training programs and by focusing on the things that we are able to control: the quality of our marine transportation and diesel engine services; operating safety; maintaining our equipment to high standards; and making sure that our employees have the right skill sets to run the businesses.

The 2006 year continues to look very good for Kirby. This is the first time in many years where excess tank barge capacity does not exist. U.S. petrochemical and refining companies are operating at close to full capacity despite persistent high raw material costs, and the U.S. economy continues to prosper.

We want to thank all Kirby employees for their hard work during 2005. We want to thank our Board of Directors. Their steadfast commitment and special expertise have been invaluable assets in the continued growth and record-setting achievements of Kirby. A special thanks to Board Member Richard Webb, who after five years on the Kirby Board is retiring this year. We wish him "fair winds and a following sea" as he pursues other interests.

Finally, we would like to thank our shareholders for their loyalty and faith in Kirby. Our goal is to continue to build on our successes of 2005 and provide increased value in the future.



Respectfully submitted,

*C. Berdon Lawrence*

C. Berdon Lawrence  
Chairman of the Board

Houston, Texas  
March 3, 2006

*Joseph H. Pyne*

Joseph H. Pyne  
President and Chief Executive Officer

# MARINE TRANSPORTATION—KIRBY INLAND MARINE, LP

## SERVICES OFFERED

Kirby Inland Marine transports petrochemicals, black oil products, refined petroleum products and agricultural chemicals throughout the Mississippi River System and Gulf Intracoastal Waterway. Kirby provides safe, efficient and environmentally sound inland marine transportation of liquid cargoes for a customer base consisting of manufacturers of petrochemicals and refined petroleum products.

## STRENGTHS

Kirby Inland Marine is the largest transporter of bulk liquid products, with an approximate 32% share of the U.S. inland tank barge market. Kirby's fleet consists of 897 inland tank barges, comprising 16.7 million barrels of cargo capacity, and 239 inland towboats. Kirby is one of the few carriers capable of servicing its customers' needs throughout the inland waterway system.

Kirby's towboats are operated by highly trained crews, whose knowledge, skills and dedication are the backbone of Kirby's service to its customers. Supporting the crews are an experienced shoreside staff and state-of-the-art communication systems and training facilities.

## MARKETS

**Petrochemicals:** Contributed 67% of 2005 marine transportation revenue. Products transported include benzene, methanol, xylene, styrene and acrylonitrile, products

used in the manufacture of plastics, fibers and paper. Drivers for the products are durable and non-durable consumer goods, housing and automobiles, which historically track the domestic economy.

**Black Oil Products:** Contributed 20% of 2005 marine transportation revenue. Products transported include residual oil, asphalt, No. 6 fuel oil, coker feedstocks and ship bunker fuel. Drivers for the products are refinery utilization, road construction, power plants and ships.

**Refined Petroleum Products:** Contributed 9% of 2005 marine transportation revenue. Products transported include gasoline blends, jet fuel, No. 2 oil and diesel fuel. Demand is driven by transportation vehicle usage, air travel, weather conditions and refinery utilization.

**Agricultural Chemicals:** Contributed 4% of 2005 marine transportation revenue. Products transported are anhydrous ammonia and nitrogen-based liquid fertilizer. The drivers are the agricultural economy and chemical feedstock usage.

## RESULTS OF OPERATIONS FOR 2005

Kirby Inland Marine reported record revenue and operating income for 2005, reflecting strong demand for its transportation services throughout the year from all of its markets. Customers operated their plants and refineries at high utilization rates, resulting in high barge utilization. Rates on contracts renewed during 2005 increased in the 4% to 6% average range, while spot market rates, including fuel, were approximately 20% to 25% higher than in 2004. Continuation of Kirby's record-setting safety performance, cost control efforts, and horsepower and fleet efficiency also positively impacted the 2005 financial results. The 2005 operating margin improved to 17.4% compared with 15.7% for 2004.

### TANK BARGE FLEET (ACTIVE)

Petrochemical/	
Refined products	701
Pressure	61
Black oil products	118
Anhydrous ammonia	12
Specialty	5
<b>Total</b>	<b>897</b>
<b>Total Barrel Capacity</b>	<b>16.7 MM</b>

### TOWBOAT FLEET (ACTIVE)

Less than 800 hp	1
800–1300 hp	114
1400–1900 hp	83
2000–2400 hp	6
2500–3200 hp	15
3300–4900 hp	11
5200 hp and greater	2
Spot charters	7
<b>Total</b>	<b>239</b>

### KIRBY INLAND MARINE

#### Statements of Operating Income (In thousands)

For the years ended December 31,	2005	2004	2003
Marine transportation revenue	\$ 685,999	\$ 588,828	\$ 530,411
Costs and expenses:			
Costs of sales and operating expenses	433,155	365,590	332,600
Selling, general and administrative	67,752	65,278	57,271
Taxes, other than on income	11,327	13,349	12,824
Depreciation and amortization	54,474	52,076	50,442
	<u>566,708</u>	<u>496,293</u>	<u>453,137</u>
Operating income	<u>\$ 119,291</u>	<u>\$ 92,535</u>	<u>\$ 77,274</u>
Operating margin	<u>17.4%</u>	<u>15.7%</u>	<u>14.6%</u>



# DIESEL ENGINE SERVICES—KIRBY ENGINE SYSTEMS, INC.

## SERVICES OFFERED

Kirby Engine Systems is a recognized U.S. leader in both in-house and in-field servicing and rebuilding of large medium-speed and high-speed diesel engines and reduction gears, and the sale of related parts to three distinct markets: marine, power generation and railroad applications. Kirby Engine Systems services these markets through three subsidiaries: Marine Systems, Inc., Engine Systems, Inc. and Rail Systems, Inc.

## STRENGTHS

Kirby Engine Systems has the largest service area of any U.S. diesel engine service provider, with eight strategically located U.S. parts and service facilities. Kirby provides a service that is essential

<b>KIRBY ENGINE SYSTEMS</b>			
<b>Statements of Operating Income</b> (In thousands)			
For the years ended December 31,	<b>2005</b>	2004	2003
Diesel engine services revenue	<b>\$ 109,723</b>	\$ 86,491	\$ 83,063
Costs and expenses:			
Costs of sales and operating expenses	<b>82,095</b>	64,723	62,266
Selling, general and administrative	<b>13,169</b>	11,882	11,530
Taxes, other than on income	<b>411</b>	335	332
Depreciation and amortization	<b>1,174</b>	1,163	1,045
	<b>96,849</b>	78,103	75,173
Operating income	<b>\$ 12,874</b>	\$ 8,388	\$ 7,890
Operating margin	<b>11.7%</b>	9.7%	9.5%

to the day-to-day operations of its marine, power generation and railroad customers. In-house service consists of direct sales of OEM (Original Equipment Manufacturer) replacement parts and the refurbishment or rebuilding of parts, engines and reduction gears in compliance with factory specifications. In-field service is provided on a worldwide basis by project engineers and mechanics to meet customers' immediate needs.

Kirby has long-term distributorships and authorized service center relationships with manufacturers of diesel engines and reduction gears, including a 40-year relationship

## SERVICE LOCATIONS

Houma, LA (2 locations)  
Rocky Mount, NC  
Chesapeake, VA  
Paducah, KY  
Seattle, WA  
Hollywood, FL  
Tampa, FL

## DISTRIBUTORSHIPS

Electro-Motive Diesel, Inc.  
Alco  
Cooper Energy Services  
Falk Corporation  
Ingersoll-Rand  
Woodward Governor  
Oil States Industries

with Electro-Motive Diesel, Inc. Kirby employs 130 factory-trained and authorized project engineers, mechanics and machinists.

## MARKETS

**Marine:** Contributed 61% of 2005 diesel engine services revenue. Market includes engines and reduction gears on inland and offshore towing vessels, harbor docking tugboats, offshore oilfield service vessels, oil and gas drilling rigs, commercial fishing fleets, dredging vessels, commercial ferries and U.S. Government vessels.

**Power Generation:** Contributed 22% of 2005 diesel engine services revenue. Market includes engines used for standby, peak and base load power generation and pumping stations.

**Railroad:** Contributed 17% of 2005 diesel engine services revenue. Market includes engines and non-engine locomotive components for shortline, industrial, Class II and certain transit railroads within the United States.

## RESULTS OF OPERATIONS FOR 2005

Kirby Engine Systems reported record-setting revenue and operating income for 2005, positively impacted by strong service activity and direct parts sales in the majority of its markets. The 2005 results were also favorably impacted by higher service rates and parts pricing, higher service revenue versus parts revenue mix, and the full year impact of the April 2004 purchase of the Midwest diesel engine services operation of Walker Boat Yard. The record-setting 11.7% operating margin for 2005, a significant improvement over the 2004 operating margin of 9.7%, was a reflection of the favorable markets, increased pricing, higher labor utilization and a change in the revenue mix, with a higher margin generally earned on service revenue.

## BUILDING FOR THE FUTURE

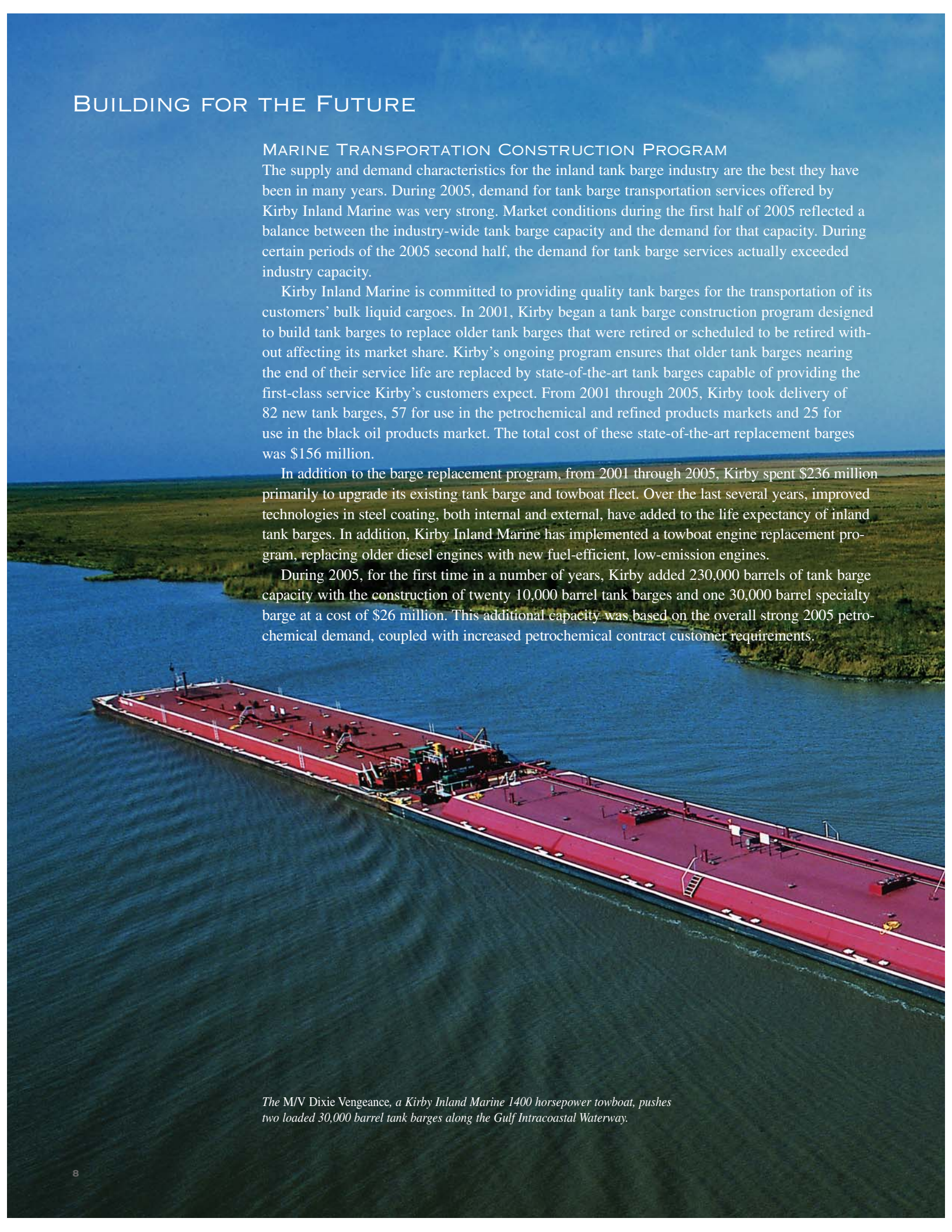
### MARINE TRANSPORTATION CONSTRUCTION PROGRAM

The supply and demand characteristics for the inland tank barge industry are the best they have been in many years. During 2005, demand for tank barge transportation services offered by Kirby Inland Marine was very strong. Market conditions during the first half of 2005 reflected a balance between the industry-wide tank barge capacity and the demand for that capacity. During certain periods of the 2005 second half, the demand for tank barge services actually exceeded industry capacity.

Kirby Inland Marine is committed to providing quality tank barges for the transportation of its customers' bulk liquid cargoes. In 2001, Kirby began a tank barge construction program designed to build tank barges to replace older tank barges that were retired or scheduled to be retired without affecting its market share. Kirby's ongoing program ensures that older tank barges nearing the end of their service life are replaced by state-of-the-art tank barges capable of providing the first-class service Kirby's customers expect. From 2001 through 2005, Kirby took delivery of 82 new tank barges, 57 for use in the petrochemical and refined products markets and 25 for use in the black oil products market. The total cost of these state-of-the-art replacement barges was \$156 million.

In addition to the barge replacement program, from 2001 through 2005, Kirby spent \$236 million primarily to upgrade its existing tank barge and towboat fleet. Over the last several years, improved technologies in steel coating, both internal and external, have added to the life expectancy of inland tank barges. In addition, Kirby Inland Marine has implemented a towboat engine replacement program, replacing older diesel engines with new fuel-efficient, low-emission engines.

During 2005, for the first time in a number of years, Kirby added 230,000 barrels of tank barge capacity with the construction of twenty 10,000 barrel tank barges and one 30,000 barrel specialty barge at a cost of \$26 million. This additional capacity was based on the overall strong 2005 petrochemical demand, coupled with increased petrochemical contract customer requirements.



*The M/V Dixie Vengeance, a Kirby Inland Marine 1400 horsepower towboat, pushes two loaded 30,000 barrel tank barges along the Gulf Intracoastal Waterway.*



In 2006, Kirby will continue to replace retired equipment with new tank barges, as well as add new capacity to its tank barge fleet. Construction projects for 2006 will consist of 23 new 30,000 barrel tank barges, eight of which will be replacement capacity and 15 of which will be new capacity, adding 450,000 barrels to Kirby's overall fleet capacity. The cost of the 23 tank barges will be \$45 million. In addition to the 23 tank barges, Kirby will also build four 2100 horsepower towboats, primarily for use on the Mississippi River. Two of the towboats are scheduled to be placed in service in the 2006 second half and two in the first quarter of 2007. The cost of the towboats is \$13 million.

## INDUSTRY TANK BARGE FACTS AND STATISTICS

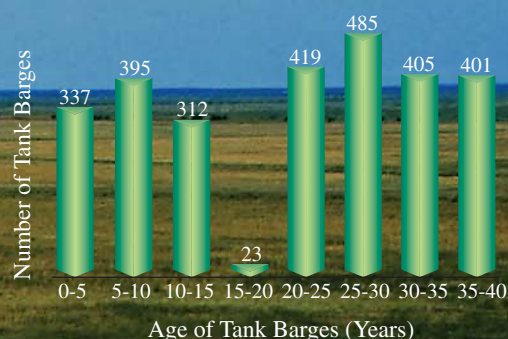
The average life of a tank barge in the industry is approximately 35 years. With proper maintenance, some tank barges will last for 40 years or more. Today, there are approximately 2,800 inland tank barges operating in the United States. Of these 2,800 barges, approximately 400 are 30-35 years old and another 400 have over 35 years of service. Based on a life expectancy of 35-40 years, nearly 30% of the current U.S. tank barge fleet is nearing its end of service. The chart to the right displays the average life of the industry tank barge fleet in five-year increments.

Tank barge construction requires specialized shipbuilding capabilities and only a few U.S. companies are currently building tank barges. For 2006, the industry order book for the construction of tank barges is complete, with approximately 100 tank barges scheduled to be built, of which Kirby is building 23.

## KIRBY IS WELL POSITIONED WITHIN THE TANK BARGE INDUSTRY

The investment that Kirby has made in its existing tank barge fleet, its tank barge replacement program and its new tank barge construction program has positioned Kirby very well for the future. The tank barge industry will have to continue to replace its older fleet. With tank barge construction currently limited to approximately 100 tank barges a year, and with nearly 30% of the fleet 30 years old or older, the risk of any sustained excess tank barge capacity in the industry is minimal.

INLAND TANK BARGE FLEET



Source: Informa Economics,  
Barge Fleet Profile, March 2005







*Bradley Levins, Relief Captain on the M/V Capt. Reggie LeBoeuf, trains on the SCI simulator. SCI Maritime Education Advanced Pilothouse Management program provides new and experienced pilots the opportunity to develop and improve their skills using the latest in simulator training technology.*



A person wearing a flight suit with a US flag patch on the sleeve is seated in a simulator cockpit. The cockpit features two large monitors. The left monitor displays a map of a coastal area with labels like 'HARDEN ISLAND' and 'C-11200'. The right monitor shows a radar display with a green target area. The background of the simulator is a large window showing a blue sky and water. A yellow rope hangs from the ceiling.

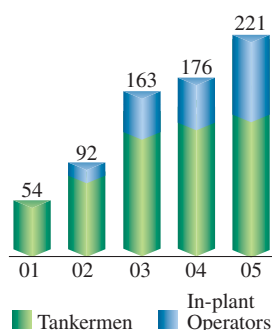
## SEAMEN'S CHURCH INSTITUTE ADVANCED PILOTHOUSE MANAGEMENT PROGRAM

The Seamen's Church Institute (SCI) was founded in 1834 in New York to serve the spiritual needs of merchant mariners. SCI's first location was a floating chapel in New York Harbor. One hundred seventy-two years later, SCI is a full-service agency providing education, advocacy and assistance for mariners worldwide. In Houston, the educational side of SCI is an essential component of Kirby's pilothouse training program. Initiated in 2001, the SCI Maritime Education Advanced Pilothouse Management program provides new and experienced pilots the opportunity to develop and improve their skills using the latest in simulator training technology.

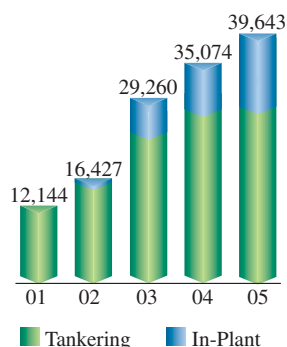
All Kirby wheelhouse employees rotate through this two-phase program featuring four interactive pilothouses that provide realistic, interactive scenarios where real-world decisions are made and analyzed. In simulators using "photo texturing" that allows digital photos to be used to create realistic environments, towboat pilots face routine and emergency conditions that require immediate and practiced decision making. The value of the simulator first proved itself in training military and commercial pilots. That same technology is now being used through SCI to increase the skills of Kirby wheelhouse employees.

# KIRBY LOGISTICS MANAGEMENT PROVIDES MANPOWER SERVICES FOR THE PETROCHEMICAL AND REFINING INDUSTRIES, LIQUID TANK TERMINALS AND MARINE TRANSPORTATION INDUSTRY

## PERSONNEL



## JOBS



While much of Kirby Inland Marine's activities are focused on waterborne transport, its customers in the petrochemical and refining industries also have a need for shore support services. Kirby Logistics Management (KLM), a division of Kirby Inland Marine, provides these services in the form of shore tankering, marine dock operations, rail car and tank truck loading and unloading, tank farm operations and other ancillary functions, including rail switching operations.

KLM was founded in the mid-1990s. At that time, KLM's objective was to provide supplemental shore tankering services for ship lightering and other high-skill and specialty product transfers. Over the years, KLM has expanded its service offerings to include in-plant and terminal services. In 2005, approximately 140 KLM shore tankermen conducted more than 28,000 barge transfers (loading or unloading barges) and provided more than 80 operators for in-plant services for petrochemical companies, refineries and terminal operators.

KLM currently serves three regional areas with shore tankermen, in-plant operators and other key support personnel: the Gulf Coast region (Brownsville, TX, to Pensacola, FL); the Mississippi River region (Baton Rouge, LA, to Memphis, TN); and the Ohio Valley region (Paducah, KY, to Pittsburgh, PA).

KLM provides state-of-the-art training for all personnel, regardless of the assignment. All KLM shore tankermen have completed required United States Coast Guard training and have passed competency exams in areas such as the safe handling of hazardous cargoes and the performance of specialized tankering processes.

In-plant operators receive the same level of training as shore tankermen. In 2005, Kirby completed construction of a new training center for KLM's in-plant operator training. This facility, located in the Kirby Training Center near the Houston Ship Channel, provides training in a wide variety of in-plant skills including dock operations, shore tank operations, rail and tank truck loading and unloading, marine vapor recovery systems, tank gauging and pigging activities, and crane operations. The in-plant operator training facility features a tank barge, rail car, tank truck, storage tank, dock facilities and complete piping systems, ensuring that KLM in-plant operators are ready to meet the needs of their customers from the first day on the job.

Both shore tankermen and in-plant operators participate in KLM's extensive safety program. Monthly safety meetings, the implementation of Behavior Based Safety processes, ISO 9000 certified procedures, and extensive training in Hazardous Waste Operations and Emergency Response, first aid/CPR and fire fighting ensure that safety is the primary concern in all facets of both training and operations.

During 2006, KLM expects to continue to expand its in-plant operations group, as well as its shore tankering operations. KLM operates 24 hours a day, 365 days a year. Its customer service department uses advanced scheduling and dispatch tools to ensure that trained personnel are on-site when needed, ready to handle a wide variety of customer requirements.

*KLM in-plant operator trainees at Kirby's Houston training facility, featuring a tank barge, rail car, tank truck, storage tank, dock facilities and complete piping systems.*







## KIRBY ENGINE SYSTEMS PRODUCES RECORD OPERATING RESULTS AND ACHIEVES ISO 9001: 2000 CERTIFICATION

The 2005 year produced record operating results for Kirby Engine Systems (KES) as its diversified customer base and nationwide presence allowed all KES market segments to take advantage of a healthy U.S. economy.

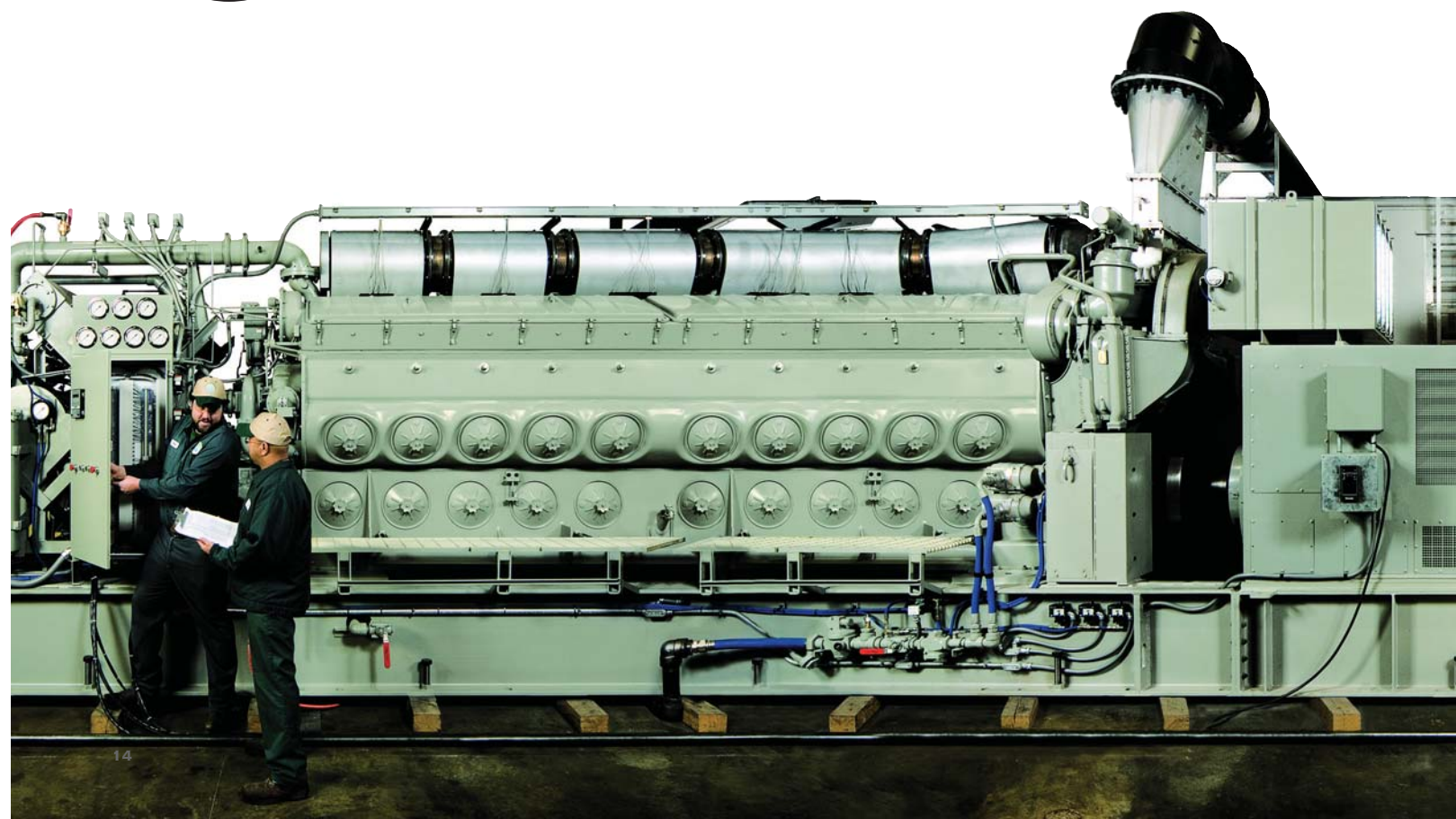


### DIVERSIFIED CUSTOMERS

KES provides service and support for large medium-speed and high-speed diesel engines essential to the day-to-day operations of marine companies, power generation facilities and railroad operators. KES also services reduction gears. Through its three subsidiaries, Marine Systems, Inc., Engine Systems, Inc. and Rail Systems, Inc., KES is a recognized leader and value-added provider of diesel engine services. In 2005, all KES market segments were active, resulting in high business levels and record earnings.

### NATIONWIDE PRESENCE

KES has a nationwide presence and long-term relationships with the manufacturers of the engines and reduction gears KES maintains and services. KES employs 130 factory-trained and authorized project engineers, mechanics and machinists. The service locations, which are listed on page 7 along with the distributorships, were strategically selected to support specific market segments. The majority of the work requires travel by the project engineers and mechanics to the customers' equipment. With geographic demand not always the same, KES has the ability to supply project engineers and mechanics from any number of locations to support increased customer requirements in any one geographic area. KES's technicians are highly mobile and adept at servicing most of its customers' equipment regardless of the application.





In 2005, KES project engineers and mechanics performed major services for U.S. customers with international operations in North and West Africa, the Caribbean Basin, Central and South America, the Middle East, the Far East and Australia. It is not uncommon for a KES project engineer or mechanic to work for several customers while on an overseas assignment.

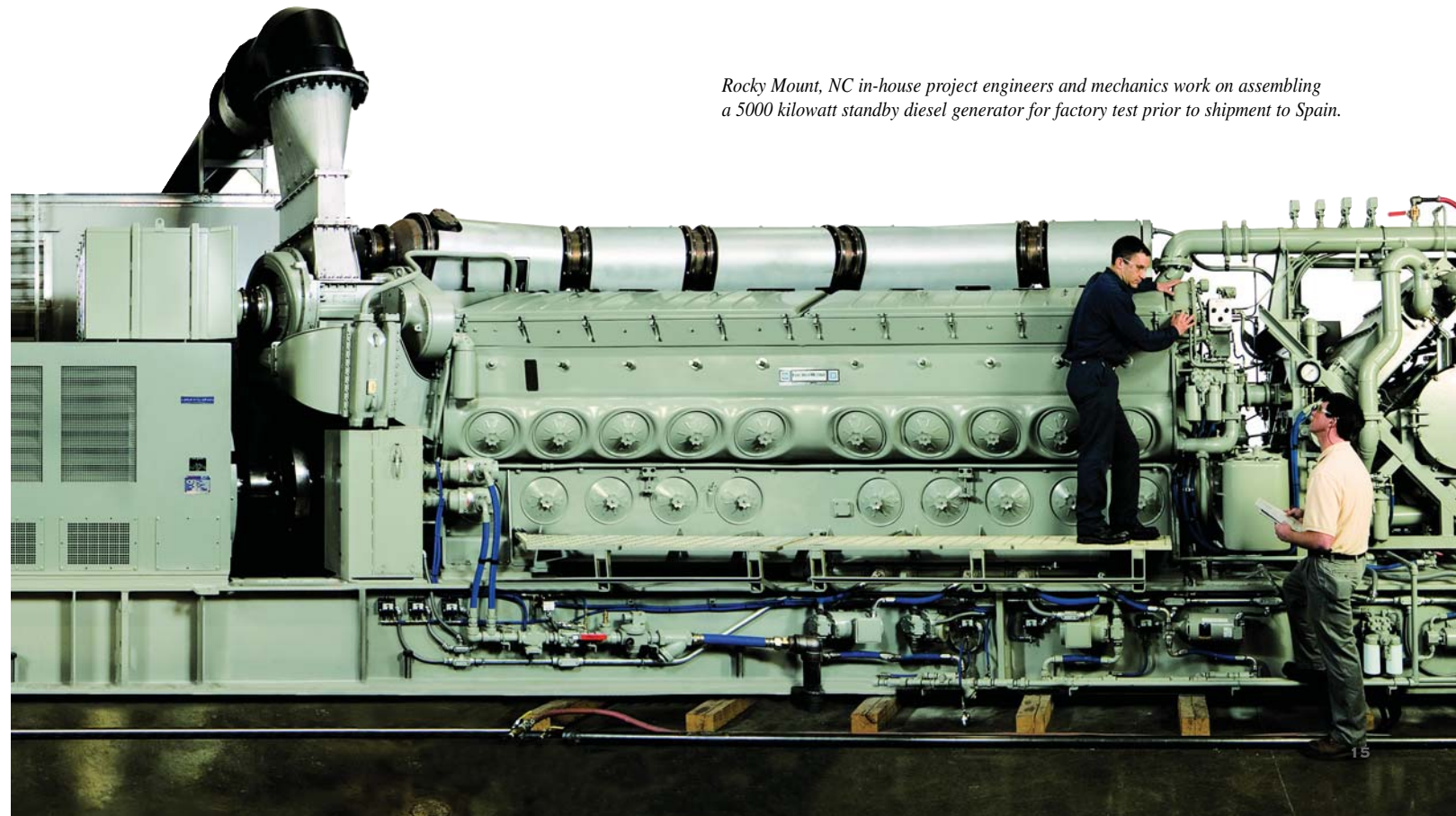
#### IMPORTANT EVENTS

The key to KES's success has been the delivery of quality products and service to its customers whenever and wherever required. To perpetuate that success, KES received certification under ISO 9001:2000 for its Gulf Coast component rebuild operation during 2005. The goal for 2006 is to achieve certification for the East Coast and Midwest component rebuild operations and to prepare the West Coast operation for certification in 2007. The benefit of the ISO certification is that it confirms KES's commitment to producing quality products and services that result in higher customer satisfaction. It also provides a platform for continued improvement in the delivery of the services KES offers.

In December 2005, the KES Midwest operation acquired the diesel engine service division of TECO Barge Lines, Inc. located in Metropolis, IL. As part of the transaction, the KES East Coast and Midwest operations entered into a long-term Master Service Agreement with TECO Barge Lines, Inc. and TECO Ocean Shipping, Inc. for parts and service.

During 2005, KES's Rocky Mount, NC facility made significant progress towards the completion of a major project for a Spanish utility company. The unit, pictured below, is a 5000 kilowatt standby diesel generator scheduled for shipment to Spain in March 2006, where it will be installed by KES project engineers and mechanics with commissioning in September 2006.

*Rocky Mount, NC in-house project engineers and mechanics work on assembling a 5000 kilowatt standby diesel generator for factory test prior to shipment to Spain.*



## BOARD OF DIRECTORS

### **C. Sean Day**<sup>2,4</sup>

Chairman of  
Teekay Shipping Corporation  
Joined board 1996

### **Bob G. Gower**<sup>1,2,3</sup>

President and  
Chief Executive Officer of  
Carbon Nanotechnologies, Inc.  
Joined board 1998

### **Walter E. Johnson**

Chairman of  
Amegy Bank of Texas  
Joined board 2001

### **William M. Lamont, Jr.**<sup>1,3,4</sup>

Private Investor  
Joined board 1979

### **C. Berdon Lawrence**<sup>1</sup>

Chairman of the Board of Kirby  
Joined board 1999

### **George A. Peterkin, Jr.**<sup>1,2</sup>

Chairman Emeritus of Kirby  
Joined board 1973

### **Joseph H. Pyne**<sup>1</sup>

President and  
Chief Executive Officer of Kirby  
Joined board 1988

### **Robert G. Stone, Jr.**<sup>3,4</sup>

Chairman Emeritus of Kirby  
Joined board 1983

### **Richard C. Webb**<sup>3</sup>

Founder and Managing Director of  
Abshier Webb & Donnelly LLC  
Joined board 2000

<sup>1</sup> Executive Committee

<sup>2</sup> Audit Committee

<sup>3</sup> Compensation Committee

<sup>4</sup> Governance Committee

## OFFICERS

### KIRBY CORPORATION

#### **C. Berdon Lawrence**

Chairman of the Board

#### **Joseph H. Pyne**

President and Chief Executive Officer

#### **Norman W. Nolen**

Executive Vice President, Treasurer and  
Chief Financial Officer

#### **Mark R. Buese**

Senior Vice President—Administration

#### **Jack M. Sims**

Vice President—Human Resources

#### **G. Stephen Holcomb**

Vice President—Investor Relations

#### **Howard G. Runser**

Vice President—Information Technology

#### **Ronald A. Dragg**

Controller

#### **Thomas G. Adler**

Secretary

### KIRBY INLAND MARINE, LP

#### **Steven P. Valerius**

President

#### **James F. Farley**

Executive Vice President—Operations

#### **William G. Ivey**

Executive Vice President—Marketing

#### **Gregory R. Binion**

Vice President—Sales

#### **Skye M. Durant**

Vice President—Vessel  
Personnel and Training

#### **Robert D. Goolsby**

Vice President—Facility Operations

#### **Mel R. Jodeit**

Vice President—Sales

#### **Mark C. Lawrence**

Vice President—Kirby Logistics  
Management

#### **Richard C. Northcutt**

Vice President—Traffic

#### **John E. Russell**

Vice President—Sales

#### **John W. Sansing, Jr.**

Vice President—Maintenance

#### **David L. Shaw**

Vice President—Vessel Operations

#### **Carl R. Whitlatch**

Vice President and Controller

#### **William M. Withers**

Vice President—Sales

### DIXIE OFFSHORE TRANSPORTATION COMPANY

#### **Joseph H. Pyne**

President

#### **Kenneth C. Bush**

Executive Vice President

#### **Thomas J. Johnson**

Vice President—Marketing

### OSPREY LINE, L.L.C.

#### **Christian G. O'Neil**

President

#### **Michael F. McQuillan**

Executive Vice President

### KIRBY ENGINE SYSTEMS, INC.

#### **Dorman Lynn Strahan**

President

#### **T. Walter Berry**

Executive Vice President

#### **David H. Farrar**

Controller

### Engine Systems, Inc.

#### **John A. Manno**

Vice President

#### **P. Scott Mangan**

Vice President—East Coast

### Marine Systems, Inc.

#### **Lynn A. Ahlemeyer**

Vice President—Gulf Coast and West  
Coast

#### **Thomas W. Bottoms**

Vice President—Midwest

#### **Troy A. Bourgeois**

Vice President—Sales

### Rail Systems, Inc.

#### **John A. Manno**

Vice President

# SHAREHOLDER INFORMATION

## ANNUAL MEETING

The 2006 Annual Meeting of Stockholders will be held at 55 Waugh Drive, 8th Floor, Houston, Texas 77007, at 10:00 a.m. (CDT), Tuesday, April 25, 2006.

## CORPORATE HEADQUARTERS

### Executive Office:

55 Waugh Drive, Suite 1000  
Houston, Texas 77007  
Telephone: (713) 435-1000  
Fax: (713) 435-1011  
Web site: [www.kirbycorp.com](http://www.kirbycorp.com)

### Mailing Address:

P.O. Box 1745  
Houston, Texas 77251-1745

## INQUIRIES REGARDING STOCK HOLDINGS

Registered shareholders (shares held in owner's name) should address communications concerning address changes, lost certificates and stock transfers to:

Computershare Trust Company, N.A.  
P.O. Box 43010  
Providence, RI 02940-3010  
Telephone: (781) 575-2897  
Internet: <http://computershare.com>

Beneficial shareholders (shares held in the name of banks or brokers) should address communications to their banks or stockbrokers.

All other inquiries should be addressed to G. Stephen Holcomb, Vice President—Investor Relations, at Kirby's corporate headquarters.

## WEB SITE

For more investor information, as well as information about Kirby, visit Kirby's web site at [www.kirbycorp.com](http://www.kirbycorp.com).

## INDEPENDENT REGISTERED ACCOUNTANTS

KPMG LLP  
700 Louisiana, Suite 3000  
Houston, Texas 77002

## COMMON STOCK INFORMATION

Stock trading symbol—KEX

The New York Stock Exchange is the principal market for Kirby's common stock. As of March 1, 2006, there were 26,321,000 common shares outstanding held by approximately 1,000 registered shareholders. The number of registered shareholders does not reflect the number of beneficial owners of common stock.

## COMMON STOCK MARKET PRICE

	Sales Price	
	High	Low
2006		
First Quarter (through March 1, 2006)	\$62.35	\$50.26
2005		
First Quarter	\$45.57	\$39.76
Second Quarter	\$45.74	\$37.19
Third Quarter	\$49.68	\$44.11
Fourth Quarter	\$55.54	\$45.91
2004		
First Quarter	\$36.54	\$30.19
Second Quarter	\$39.09	\$33.20
Third Quarter	\$40.38	\$33.65
Fourth Quarter	\$46.48	\$38.87

## REPORTING CALENDAR

2006 First Quarter Results:  
Press Release – Wednesday, April 26, 2006\*  
Conference Call – Thursday, April 27, 2006\*\*

2006 Second Quarter Results:  
Press Release – Wednesday, July 26, 2006\*  
Conference Call – Thursday, July 27, 2006\*\*

2006 Third Quarter Results:  
Press Release – Wednesday, October 25, 2006\*  
Conference Call – Thursday, October 26, 2006\*\*

2006 Fourth Quarter Results:  
Press Release – Wednesday, January 24, 2007\*  
Conference Call – Thursday, January 25, 2007\*\*

\*Announcement at 5:00 p.m. central time  
\*\*Conference Call at 10:00 a.m. central time

## FINANCIAL AND INVESTOR RELATIONS

Copies of Kirby's Form 10-K (which is incorporated in this Annual Report) and copies of Kirby's Form 10-Q reports are available free of charge. Either contact G. Stephen Holcomb, Vice President—Investor Relations, at Kirby's corporate headquarters, e-mail [Steve.Holcomb@kirbycorp.com](mailto:Steve.Holcomb@kirbycorp.com), or visit Kirby's web site at [www.kirbycorp.com](http://www.kirbycorp.com).

## CERTIFICATIONS

Kirby has included as Exhibits 31.1 and 31.2 to its Annual Report on Form 10-K for the year ended December 31, 2005, filed with the Securities and Exchange Commission, certificates of the Chief Executive Officer and Chief Financial Officer regarding the quality of Kirby's public disclosure. In addition, in 2005, Kirby submitted to the New York Stock Exchange (NYSE) a certificate of the Chief Executive Officer certifying that he was not aware of any violation by Kirby of NYSE corporate governance listing standards as of the date of the certification.



## Kirby Corporation

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55 Waugh Drive, Suite 1000  
Houston, Texas 77007

Mailing Address:  
P. O. Box 1745  
Houston, Texas 77251-1745

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Fax: (713) 435-1011  
Web site: [www.kirbycorp.com](http://www.kirbycorp.com)

